

GAO

United States General Accounting Office **131343**
Report to the Chairman, Subcommittee on
Housing and Community Development
Committee on Banking, Finance and
Urban Affairs
House of Representatives

September 1986

PUBLIC HOUSING

**Proposed Sale of the
Allen Parkway Village
Project in Houston,
Texas**



131343

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United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-221429

September 16, 1986

The Honorable Henry B. Gonzalez
Chairman, Subcommittee on Housing
and Community Development
Committee on Banking, Finance and
Urban Affairs
House of Representatives

Dear Mr. Chairman:

Your letters of November 6, 1985, and January 31, 1986, requested that we review aspects of the application submitted by the Housing Authority of the City of Houston, Texas, (the housing agency) to the Department of Housing and Urban Development (HUD) to demolish and dispose of the housing agency's Allen Parkway Village project.¹ At your request we focused our work on determining: (1) how the housing agency ensured that its application met federal requirements, including how it supplemented its original application and whether it has a plan for replacing the project's units, (2) whether tenants were meaningfully consulted, and (3) the basis for the housing agency's estimate that it would cost about \$30 million to rehabilitate the project. Appendixes I-III provide additional details on the above matters and respond to other questions you asked.

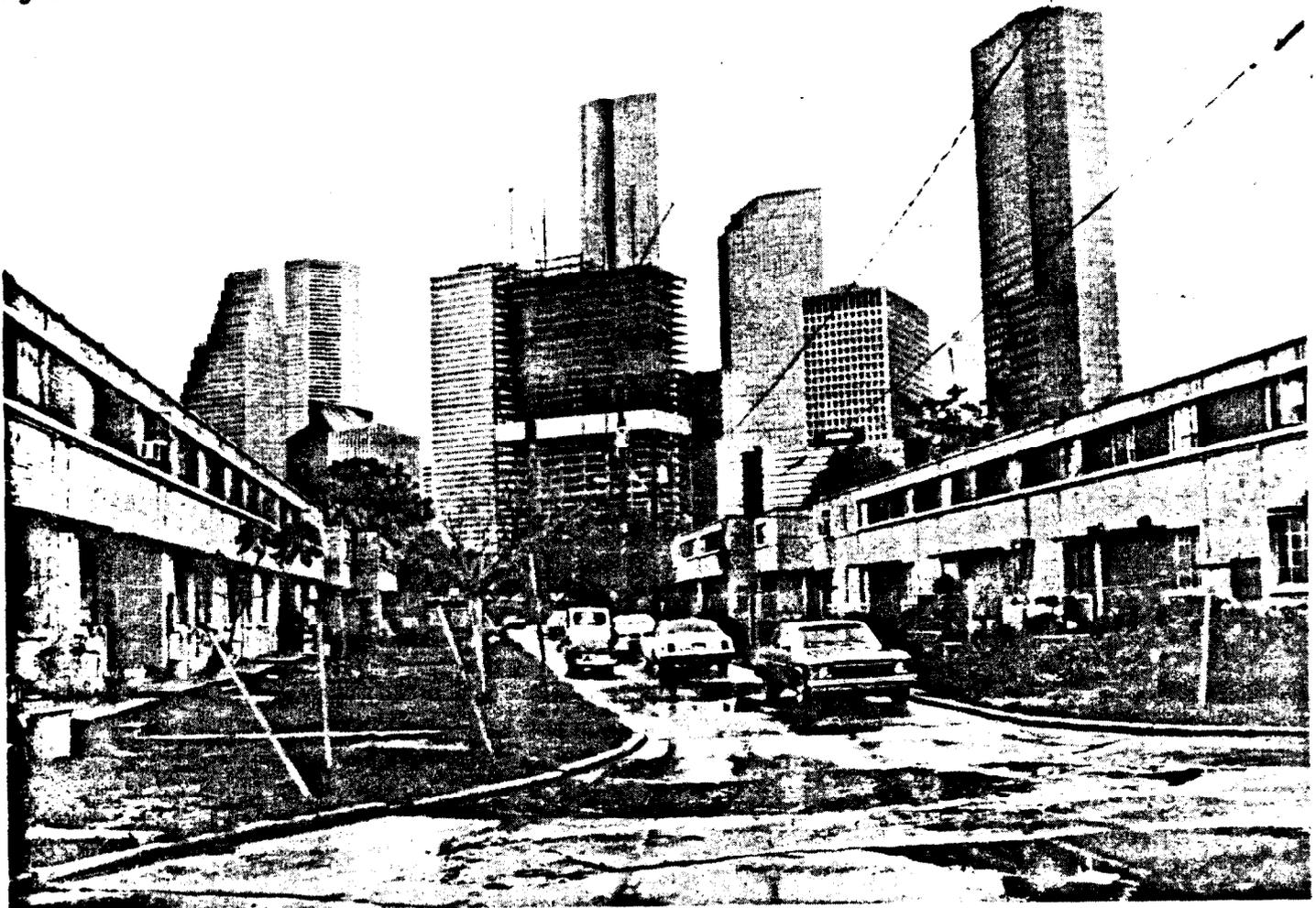
Allen Parkway Village, a public housing project completed during World War II, consists of 1,000 apartment units in 80 buildings and 3 support buildings. It is situated between Houston's central business district and the "Fourth Ward," a poor section of the city. According to housing agency officials, little modernization has taken place since the early 1960's, and the project does not meet a number of city building codes or current HUD property standards.

The housing agency wants to sell the project and use the net proceeds to provide more efficient and effective housing. Because the project is located next to Houston's central business district, the housing agency believes the sale will generate sufficient revenue to provide more, better quality housing than it can if Allen Parkway Village remains in its inventory.

¹Public Housing: Modernization of the Allen Parkway Village Housing Project in Houston, Texas (GAO/RCED-86-71FS, Dec. 20, 1985) addressed the portion of your request concerning a \$10 million HUD award to modernize the project.

On the basis of findings developed by a research team comprised of four agency-appointed outside consultants, the housing agency's Board of Commissioners authorized its executive director in November 1983 to seek HUD approval to demolish the project's structures and sell the land. In August 1984 the housing agency sent its application to HUD. In January 1986 after two housing agency revisions to the application in March and October 1985, HUD's Fort Worth regional office recommended approval to HUD headquarters. As of August 1986 the application was under consideration at HUD headquarters.

Figure 1: Allen Parkway Village, Next to Houston's Central Business District



Allen Parkway Village's close proximity to Houston's central business district, in the background, is seen as a selling point for the project.

How the Housing Agency's Application Addressed Federal Requirements

Under Section 18 of the United States Housing Act of 1937, as amended,² (the act) and HUD's implementing regulations, HUD may approve the Houston housing agency's application if HUD makes the determinations listed in table 1.

²Section 18 and HUD's implementing regulations contain other conditions under which public housing may be disposed of (sale or other transfer of ownership) or demolished. See appendix I.

Table 1: Determinations HUD Must Make Before It Can Approve the Houston Housing Agency's Disposition Application

| Sale proceeds will | Tenants | Local government |
|--|--|--|
| —provide more efficient and effective housing. | —will be assisted in relocating to affordable housing. | —has certified that the application conforms to its housing assistance plan. |
| —preserve the lower-income housing stock. | —were consulted during application development. | |
| —retire development costs and existing project debt. | | |

The housing agency's August 1984 application concentrated almost entirely on the demolition aspects of its plan but included a statement that it anticipated sending HUD a request to sell the project. HUD did not approve the August 1984 submission because it needed clarification in two major areas. First, the application primarily discussed the demolition aspects of the housing agency's proposal and did not explain how the sale would provide more efficient and effective housing, preserve the community's lower-income housing stock, and repay development costs and existing debt. Second, HUD did not believe that the housing agency had sufficiently described and evaluated comments received from project tenants and requested that it do so. The housing agency's March and October 1985 submissions to HUD addressed these areas.

The housing agency's revised application states that up to \$120 million would be realized from the sale of the 37-acre tract. (In December 1984 a HUD appraisal estimated the site's value at between \$98 million and \$114 million.) Assuming the sale generates the \$120 million, after liquidating project indebtedness, relocating tenants, and demolishing the project, the housing agency estimates that it would net as much as \$114 million to use on replacement housing and other assisted-housing activities. A HUD estimate indicated that these funds could provide as many as 2,000 units of assisted housing, twice the number in Allen Parkway Village.

On the requirement to preserve the lower-income housing stock, the housing agency's revised application states that (1) it will provide 1,000 replacement units in smaller projects, including up to 400 units for the elderly on or near the Allen Parkway Village site, (2) 19,000 units of foreclosed multifamily units in Houston were suitable for low-income housing and could be considered for use, and (3) the housing agency was compiling a list of suitable sites that were on the market as locations for new housing.

The application did not contain an overall plan showing how, when, or where the replacement units would be developed. The Director of HUD's

regional Office of Public Housing in Fort Worth told us that the regional office did not require a specific plan because officials were satisfied that the proposal had sufficient economic merit and would result in at least 1,000 replacement units.

The Director of the Project Management Division within HUD's headquarters Office of Public Housing told us that Houston's multifamily vacancy rate is approximately 20 percent and is a good indication that identifying replacement housing will not be a problem. The director also said that one option open to HUD is to grant conditional approval to the application, subject to the development of an acceptable replacement housing plan. Both the housing agency and HUD officials told us that later development of a replacement housing plan may be preferable because it would result in a more realistic plan, given the 3-1/2 years the housing agency expects it will take to sell the project.³

To dispose of Allen Parkway Village, other section 18 and regulatory requirements have to be met, as indicated in table 1. Our review of the housing agency's application showed that it obtained the local certification and agreed both to assist the tenants in relocating to affordable housing and to repay about \$1.9 million owed HUD for the original development cost of the project. A discussion of the remaining area—the housing agency's consultation efforts—follows.

The Housing Agency's Consultation Efforts

Section 18 of the act requires that a housing agency's application "has been developed in consultation with" tenants and tenant councils. Neither section 18, its legislative history, nor HUD's implementing regulations yield any guidance on how housing agencies are to conduct this consultation or how the requirement is satisfied. HUD's Assistant General Counsel for Assisted Housing told us that HUD interprets the consultation as being advisory and that the information presented in any changes to an application should be developed in consultation with the tenants and tenant council, if the revised information would materially affect them. We agree with this interpretation.

We noted that in 1983 and 1984 the housing agency used several avenues to consult with tenants, the tenant council, and the community on its proposal to demolish the Allen Parkway Village structures and sell

³The housing agency expects that it will take 3-1/2 years to relocate remaining tenants; demolish the 83 structures in 2 phases; develop a detailed request for proposals for the project's sale; solicit, receive, and evaluate bids; and negotiate a final agreement.

the land and received feedback and comments in several forms. In 1983 when the housing agency appointed a research team to study the possibility of rehabilitating the housing project and revitalizing the surrounding area, it also appointed a steering committee, which included Fourth Ward area residents, to coordinate public feedback to the research team and provide comments on the study. In June 1983 the housing agency began to provide opportunities for public comment on Allen Parkway Village matters at its monthly board meetings. In September 1983 the research team completed its study and in its report concluded that the most feasible course of action would be to demolish the existing structures, sell the property, and invest the proceeds in more-suitable housing. In November 1983 the Allen Parkway Village Resident Council (the tenant council) provided the housing agency with a document that disagreed with the research team's conclusion. The council stated that the project and the surrounding area were a viable community and the research team's project rehabilitation cost estimates were unrealistically high. Legal representatives for the tenant council issued a similar document that questioned whether the housing agency could overcome community resistance in its attempts to replace the Allen Parkway Village units with other projects in other areas of the city.

The housing agency notified Allen Parkway Village tenants and the tenant council in December 1983 of its decision to demolish the project and sell the property and requested comments. The council did not provide a written response to the housing agency. Rather, it accumulated about 200 letters from tenants and others and sent them to HUD's Houston office in March 1984. In addition, the housing agency's executive director met with tenants in May 1984 to discuss the proposed sale and explain a proposed relocation plan for affected tenants.

The housing agency received comments both for and against the proposed sale of the project. At HUD's request it analyzed comments objecting to the proposed sale and provided HUD with its response. In its response to HUD, the housing agency stated that rebuilding 1,000 units on the site would not be as cost-effective as using the proceeds of the sale to acquire or build replacement housing and that rehabilitation funding (under HUD's modernization program) for the project would be uncertain. The housing agency has indicated that its intent to develop up to 400 units of elderly housing on or near the project site is responsive to tenant concerns that Allen Parkway Village should not be demolished.

You asked whether the March and October 1985 revisions and clarifications constituted a significant revision to the application to warrant further tenant review and comment. Collectively, the modifications did significantly revise the form of the 1984 application, since that application discussed only demolition aspects of the housing agency's plan and not the disposition aspects. According to the housing agency, it did not formally advise the tenants or the tenant council of the two revisions to its application because it had clearly advised them previously of the planned disposition of the property. In this regard, our review of documents relating to the application and discussions of the proposed sale with HUD and housing agency officials and with the president of the project's tenant council showed that the housing agency's stated intent has been to sell the project, rather than merely demolish it, and that its consultation activities met the section 18 consultation requirements. For example, the housing agency consulted with the tenants about its intent to replace the Allen Parkway Village units and its tenant relocation plans and policies. Thus, while the housing agency could have further consulted by supplying the tenants and tenant council with the March and October 1985 revisions, we do not believe that any requirement existed for it to do so.

Project Rehabilitation Cost Estimate

In its original application, the housing agency estimated that rehabilitating Allen Parkway Village would cost \$36 million. It revised this estimate to \$30 million in March 1985. HUD does not consider the estimate an issue since a rehabilitation estimate is not required under the law or HUD regulations as a basis for approving or disapproving the housing agency's disposition application.⁴ We agree with HUD's position.

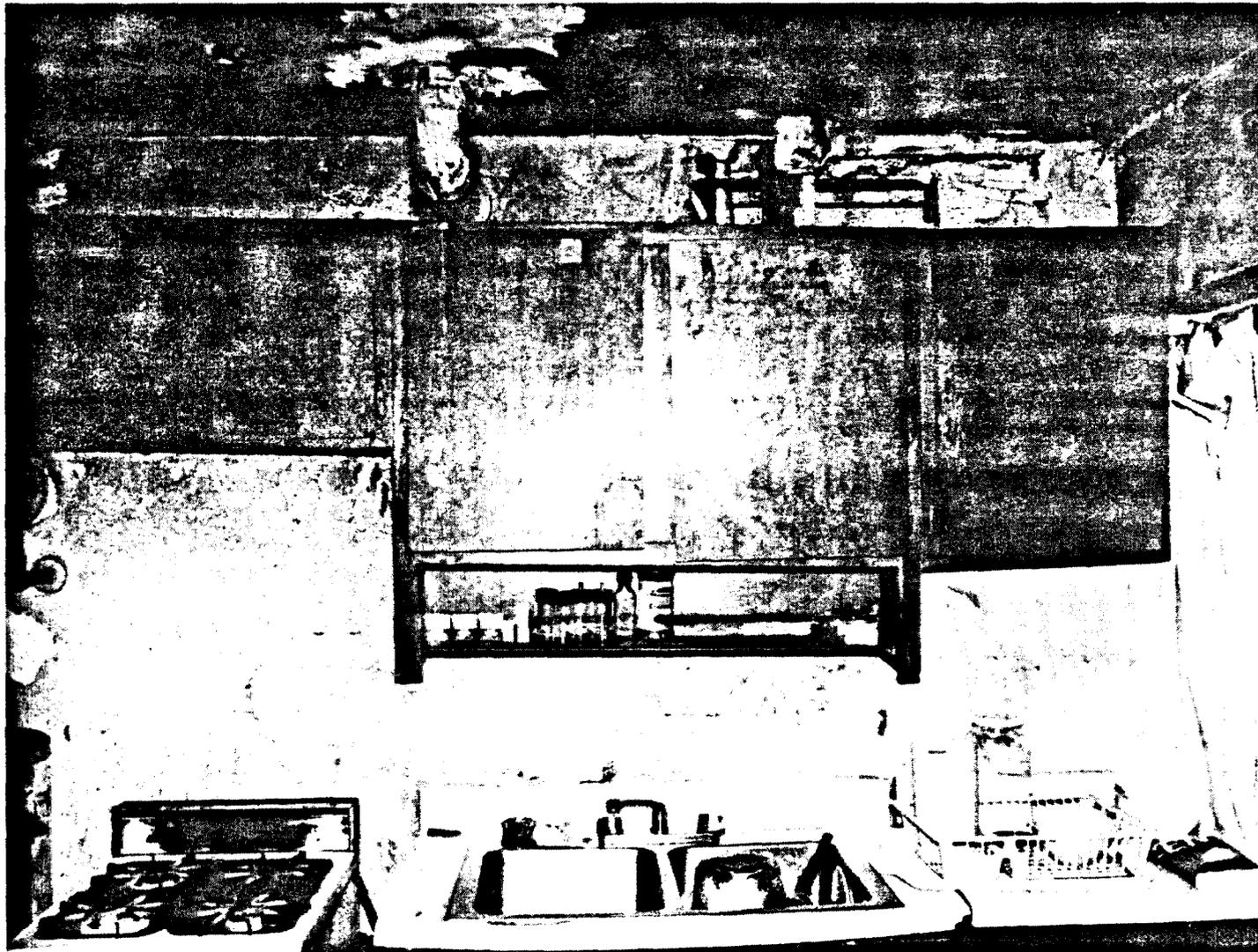
⁴See table 1. Under the section 18 and regulatory requirements applicable to the housing agency's application, HUD could approve the application without regard to the project's condition or whether it is feasible to rehabilitate it.

Figure 2: A Partially Inhabited Allen Parkway Village Building



Vacant, partially boarded-up project unit adjoins inhabited units. Building exterior shows separated brick work, vandalism, and broken cement.

Figure 3: Kitchen of an Inhabited Allen Parkway Village Unit



This inhabited unit shows water damage to the ceiling, exposed pipes, and plaster damage. Many project units need rehabilitation if the project is not sold.

In developing the \$30 million estimate, housing agency staff and a consulting developer used HUD's minimum property standards and Houston's building codes as a basis for establishing work standards. In developing specific cost estimates, the team utilized HUD modernization cost guidelines, several industry cost handbooks, and the team's knowledge of construction costs in Houston. Housing agency officials said the \$30 million rehabilitation effort could result in 20-30 years of added life for the project.

In December 1984 HUD prepared an estimate that the project could be renovated for \$14 million. The HUD official who prepared the estimate stressed that it was only a preliminary estimate and that the \$14 million rehabilitation would extend the project's life by 8-10 years, rather than the 20- to 30-year added life under the housing agency's estimate.

We compared selected work items in the housing agency's and HUD's estimates and found that differences in the work proposed produced sizable differences in the two estimates. For example, HUD proposed resurfacing the existing flat roofs for \$560,000 and the housing agency proposed replacing the flat roofs with pitched roofs to provide better drainage and reduce long-term maintenance, for \$1,701,914. We also traced the source for selected costs in the housing agency's estimate and confirmed that those cost estimates had been based on HUD modernization cost guidelines, industry cost handbooks, and local costs. (See app. III for more specific information.)

HUD and Houston Housing Agency Comments

We asked HUD and the Housing Authority of the City of Houston to comment on a draft of this report. (See apps. V and VI.) In its comments, HUD stated that it believes that our draft confirmed the appropriateness of the actions taken by HUD and the Houston housing agency with regard to the proposed sale of Allen Parkway Village. HUD offered technical comments, which are included where appropriate. In its comments, the Housing Authority of the City of Houston stated that the major conclusions contained in the draft report represent fairly the actions taken by the housing agency.

You asked us to provide any recommendations to ensure that, under HUD's demolition and disposition application review process, adequate safeguards exist (1) against misuse of authority and (2) for assurance of adequate citizen review and comment. Since our work involved only one application, its limited scope does not provide a basis for making overall judgments about the adequacy of HUD's review process or the need for additional safeguards. Further, our work did not identify any problems in the process that HUD used in its review of the Housing Authority of the City of Houston's application to dispose of Allen Parkway Village.

We conducted our review at HUD headquarters in Washington, D.C.; the HUD regional and field offices in Fort Worth and Houston, Texas, respectively; and at the housing agency's main office in Houston, Texas. At these locations we interviewed responsible HUD and housing agency officials, reviewed laws and regulations, and examined documentation regarding the housing agency's application to dispose of Allen Parkway Village. We also contacted the president of the project's tenant council and the council's legal representatives. Additionally, we toured the housing project and discussed its operation with site management. Our review was conducted in accordance with generally accepted government auditing standards. (See app. IV.)

As arranged with your office, we will not distribute this report to others for 30 days unless you announce its contents or agree to the distribution beforehand. At that time we will send copies to interested parties and make copies available upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "J. Dexter Peach". The signature is written in black ink and is positioned above the typed name and title.

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

| | |
|-------|---|
| APV | Allen Parkway Village |
| GAO | General Accounting Office |
| HACH | Housing Authority of the City of Houston |
| HUD | Department of Housing and Urban Development |
| PHUIP | Public Housing Urban Initiatives Program |
| RCED | Resources, Community, and Economic Development Division |

How the Housing Authority of the City of Houston's Application Addressed Statutory and Regulatory Requirements

Allen Parkway Village (APV) is 1 of 15 public housing projects owned and operated by the Housing Authority of the City of Houston (HACH).¹ Completed during World War II, it consists of 1,000 apartment units and 3 support buildings and is situated in a predominantly poor section, the Fourth Ward, next to Houston's central business district. According to HACH officials, the project has had little modernization since the early 1960's and does not meet a number of city codes or current HUD property standards.

Under federal law a housing agency may apply for HUD approval to sell a public housing project if the proceeds will be used to provide more efficient and effective housing and maintain the total amount of lower-income housing stock in the community and may also seek approval in other situations. In November 1983 the HACH Board of Commissioners voted to seek HUD approval to demolish the project and sell the land on which it is located. HACH believes it can realize a sufficient amount from the sale to provide at least 1,000 replacement units of better quality housing plus additional housing services (such as expanding its housing stock, modernizing other projects, and/or taking other actions). The housing agency believes proceeds from the APV sale would also allow it to be less dependent on federal funding.

In August 1984 HACH sent HUD an application to demolish the project, with the project eventually to be sold. Through two supplements written in 1985, the housing agency clarified and revised its application in response to questions HUD had raised. In January 1986 HUD's Fort Worth Regional Office recommended approval of the application and forwarded it to HUD headquarters where a final decision is pending, as of August 1986.

¹The United States Housing Act of 1937, as amended (42 U.S.C. 1401, *et seq.*), established a public housing program to provide lower-income families with decent, safe, and sanitary housing. The program is administered by HUD and carried out by state and local governmental entities, called public housing agencies. Nationwide, over 3 million people live in 1.3 million public housing units, administered by about 3,100 housing agencies. HACH currently has about 4,000 public housing units (including APV) and, overall, administers about 10,000 low-income housing units under various HUD housing programs.

How Public Housing Agencies Can Justify Demolishing or Disposing of Housing Projects

In 1983 the Congress enacted legislation that added Section 18 of the United States Housing Act of 1937 (the act) (42 U.S.C. 1437p). Section 18 provides the criteria for HUD approval of public housing agency applications for demolishing (razing structures without transferring ownership) or disposing of (selling or other transfer of ownership) public housing projects or portions of projects. Generally, under section 18, HUD may approve demolishing a project when (1) it is obsolete for housing purposes, (2) no reasonable modernization program is feasible, or (3) demolishing a portion of the project helps to assure the useful life of the remainder. Disposition of a project, on the other hand, can be approved if HUD determines that the property's retention is not in the best interest of the tenants or the housing agency because (1) developmental changes in the area surrounding the project adversely affect the health or safety of the tenants or operation of the projects, (2) disposition allows the acquisition, development, or rehabilitation of other lower-income properties that preserve the total inventory of low-income housing stock, or (3) other factors, determined by HUD, that are consistent with the best interests of the tenants and housing agency (see table I.1). A distinction between the demolition criteria and second disposition criterion is that the latter can be approved without regard to the physical condition of the project.

In addition to satisfying the criteria outlined above, under section 18 housing agencies (for either demolition or disposition) must also

- develop applications in consultation with affected tenants and any tenant councils;
- obtain certification from appropriate local government officials that the demolition or disposition is consistent with the local government's housing assistance plan;² and
- provide all displaced tenants with assistance in relocating to other decent, safe, sanitary, and affordable housing.

When proposing disposition, the housing agency must also agree to use the net sale proceeds (gross proceeds less costs of disposition, including relocation costs) to pay off project development costs and debt and then to use remaining proceeds to provide assistance to lower-income families through measures such as acquisition, modernization, or rehabilitation of other properties that can be used as low-income housing.

²Housing assistance plans are long-range housing goals developed by local government entities in compliance with HUD community development programs.

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and Regulatory Requirements

In his November 6, 1985, letter, the Chairman asked how, under the law, an application to demolish a public housing project may be disapproved, but one for disposing of the project might be approved, since in both instances the end result is the same. As shown in table I.1, section 18, which governs approval for demolishing and disposing of public housing projects (or portions of projects), sets different requirements under which an application may be approved or disapproved by HUD. Depending on the circumstances, the housing agency may be able to satisfy one set of criteria (such as the disposition criteria) but not the other set (i.e., the demolition criteria).

Table I.1: Different Criteria for HUD
Approval of Public Housing Demolition
and Disposition

| To demolish a project, HUD must determine that | To dispose of the real property of a project, HUD must determine that |
|--|---|
| <p>—either it is obsolete as to physical condition, or other factors, making it unusable for housing purposes, or no reasonable program of modification is feasible to return the project or portion of the project to useful life; or</p> <p>—in the case of an application proposing demolition of only a portion of a project, the demolition will help to ensure the useful life of the remaining portion of the project.</p> | <p>—the property's retention is not in the best interests of the tenants or the housing agency because (1) developmental changes in the area surrounding the project adversely affect the health or safety of the tenants or the feasible operation of the project by the public housing agency, or (2) disposition allows the acquisition, development, or rehabilitation of other properties that will be more efficiently or effectively operated as lower income housing projects and that will preserve the total amount of lower income housing stock available in the community, or (3) because of other factors that HUD determines are consistent with the best interests of the tenants and public housing agency and that are not inconsistent with other provisions of the statute authorizing public housing; and</p> <p>—property other than dwelling units is excess to the needs of the project or the disposition is incidental to, or does not interfere with, continued operation of a project; and</p> <p>—net proceeds from the disposition will be used to repay project debt and then will be used to provide housing assistance for lower-income families through such measures as modernization of lower-income housing or the acquisition, development, or rehabilitation of other properties to operate as lower-income housing.</p> |

Source: 42 U.S.C. 1437p.

Regulatory Requirements

At the time HACH submitted its application, HUD had not issued final regulations implementing section 18. Existing regulations (24 C.F.R. 970)

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dated from 1979 and were not totally consistent with the 1983 statute. HUD program and legal officials told us that, as a matter of policy, until regulations implementing section 18 became effective, they applied the portions of the existing regulations that were not inconsistent with the statute.

On December 13, 1985, HUD published final regulations implementing section 18 (50 F.R. 50891), and these regulations became effective on March 1, 1986. These requirements, for the most part, mirror those in the 1983 statute and also require more specific or detailed information from the housing agency. According to HUD's Assistant General Counsel for Assisted Housing, a HUD decision on or after March 1, 1986, on a demolition or disposition application, will be based on the December 13 regulations, even if the application was submitted prior to March 1, 1986. The Assistant General Counsel based this position on the concept that (1) the new regulations implement the controlling statute and (2) according to the regulatory language, that HUD may not approve an application unless the conditions in the regulations are met. Accordingly, we applied section 18 criteria and HUD's regulations, effective March 1, 1986, in describing how HACH ensured that it met federal statutory and regulatory requirements.

The Chairman's November 6 letter asked how the lack of regulations implementing section 18 affects HUD's ability to act on an application submitted by a housing agency under section 18 requirements. Since the Chairman asked this question, HUD final regulations implementing section 18, as discussed above, have gone into effect and will be applied to HACH's application. However, HUD's Assistant General Counsel for Assisted Housing told us, and we agree, that in the absence of any statutory language preventing HUD from acting on an application until those regulations were issued, the authority conveyed by the statute was sufficient to enable HUD to review and approve or reject applications.

HUD Review of
Applications

HUD normally provides specific operational guidance to its regional and local offices through handbooks. However, at the time of our review, HUD did not have a handbook on public housing demolition and disposition but was preparing one to provide further guidance on the 1983 statute and the implementing regulations.

Applications for demolishing or disposing of public housing are initiated by the housing agency and initially submitted to local HUD field offices, which in turn advise appropriate HUD regional offices. According to the

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Director of HUD's Office of Public Housing, HUD headquarters primarily relies on regional offices to review each application and make recommendations.

Although several offices at HUD headquarters review the application, the Assistant Secretary for Public and Indian Housing makes the final decision to approve or disapprove each application. Disapproved applications may be resubmitted with additional information, if the housing agency so chooses. The review process is interactive in that HUD officials at the three levels may discuss the application with each other and may meet or correspond with the housing agency.

In reviewing applications from public housing agencies, HUD views its role as limited to determining whether applicable statutory and regulatory requirements have been met. As HUD stated in its notice of final rule making, HUD's position is not intended to encourage large-scale reductions in housing stock, but rather reflects congressional recognition that situations may exist in which disposition or demolition can be justified.

HACH's Application to Dispose of APV

HACH's proposal to dispose of APV was based on a research team's assessment of several approaches for rehabilitating, demolishing, and/or disposing of APV. It also believes that by selling the project it can provide more and better quality lower-income housing from the sale proceeds. It also believes that 3-1/2 years may be needed to sell all parcels of the project after HUD approval.

Basis for HACH's Decision to Dispose of APV

HACH's application to dispose of APV is based on the benefits that are expected to accrue upon sale of the property. The property is located next to Houston's central business district, and the housing agency's application estimated that, under recent market conditions, up to \$120 million could be gained on the sale. The housing agency believes that by selling the 1,000-unit project, it would (1) be less dependent on federal subsidies, (2) relieve itself of a project that does not meet many of HUD's current standards and is difficult to effectively manage because of its large size, age, and run-down condition, and (3) increase its inventory of assisted housing.

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HACH decided to seek approval to sell APV after a HACH-appointed research team, consisting of four outside consultants,³ completed a 4-month study (in September 1983) of various options for rehabilitating, demolishing, and/or disposing of APV. The housing agency's executive director, who had assumed office in August 1982, told us he requested the study to obtain an updated assessment of the project and to evaluate the pros and cons of rehabilitating or disposing of APV.⁴ The research team coordinated its efforts with a 12-member steering committee, which included Fourth Ward-area residents and representatives from private industry, the city government, the University of Houston, and the HACH Board of Commissioners. Between May and August 1983, this committee served as a conduit for tenant and public comments and as a sounding board for observations made by the research team. The research team's report listed three options for APV:

- completely rehabilitate the project;
- combine a rehabilitation/demolition effort to reduce the project density to about 600 units; and
- demolish all 1,000 units and sell the property.

The team concluded that the first two options were not feasible because (1) large monetary expenditures would be necessary (2) federal funding for rehabilitation work would be uncertain (3) design flaws, such as high unit density, lack of open space, and problems with traffic flow, would continue and (4) HACH would still have a large project with its attendant management problems. The team weighed these disadvantages against several variations of the third option and recommended that HACH demolish the project, sell the property, utilize proceeds to acquire replacement housing projects, and establish a commitment to assist in redeveloping the APV area. The team concluded that this option would provide HACH substantial financial gain, generate ample funds for replacement housing, and eliminate complex problems associated with the APV housing project.

In November 1983 the HACH Board of Commissioners voted to adopt the research team's recommendation and authorized the housing agency's executive director to present the proposal to HUD.

³This research team consisted of a housing consultant/architect, two housing research and science consultants, and an affiliated psychologist.

⁴HACH, under a different Board of Commissioners and Executive Director, had submitted an application to dispose of Allen Parkway Village in March 1982.

**How HACH Plans to Carry
Out Its Disposition
Initiative**

HACH has proposed a two-phase approach in disposing of the project. Phase one would consist of relocating the remaining APV tenants to one area of the project and demolishing vacant buildings.⁵ The housing agency anticipates that the number of occupied units will be reduced to about 325 by the time demolition work starts. This first phase, thus, would entail demolishing about 675 vacant units in 58 of the 80 dwelling structures. During this phase, HACH would also relocate tenants to other housing agency projects and develop a detailed plan, subject to HUD's approval, for selling the property.

In phase two, HACH would relocate the remaining tenants, demolish the remaining buildings—including the three nonresidential structures—and finally sell the site. Assuming the sale generates the \$120 million anticipated by HACH, HUD estimated that about 2,000 units of assisted housing could be obtained with the proceeds from the sale. The housing agency plans to apply the proceeds as shown in table I.2. After liquidating APV indebtedness, relocating tenants, and demolishing the project, HACH anticipates having as much as \$114 million to use for replacement housing and other assisted housing activities.

⁵HACH plans to demolish the buildings to prevent problems inherent with vacant buildings (vandalism, squatters, etc.) and to increase the site's marketability.

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Table I.2: HACH Estimate of Net Proceeds That Could Result From APV Sale

| | | |
|---|------------------------|----------------------------------|
| Estimated proceeds of sale | | \$120,000,000^a |
| Expenses:^b | | |
| Administration | \$271,440 | |
| Building demolition | 820,000 | |
| Tenant relocation | 2,112,500 ^c | |
| APV debt liquidation | 1,937,006 | |
| Consulting/legal fees | 300,000 | |
| Contingencies | 296,060 | 5,737,006 |
| Net proceeds available for HACH housing activities | | \$114,262,994^d |

^aHACH based its estimate on data contained in the study it sponsored, "Technical Report: Allen Parkway Village/Fourth Ward." The report presented a number of estimates from different sources and did not settle on any one estimate. The HACH figure is close to a December 1984 HUD appraisal estimate of \$60 to \$70 per square foot, which translates to about \$98 million to \$114 million for the entire site. Other estimates from many sources have ranged from about \$60 million to as high as \$750 million, depending on economic conditions.

^bHACH has requested that HUD allow it to use \$3.8 million in unused Public Housing Urban Initiatives Program (PHUIP) funds awarded to it in 1979 to rehabilitate Allen Parkway Village. If approved by HUD, HACH would use these funds for the listed demolition expenses (except for the \$1,937,006 in debt liquidation). The PHUIP funds would be loaned to HACH, which would then repay the loan from the sale proceeds.

^cIncludes about \$1,625,000 in minor rehabilitation expenses for 325 APV units that will temporarily house tenants during demolition activity. The remaining \$487,500 is for relocating these tenants to other housing.

^dHUD assumed replacement costs of \$45,000 per unit and estimated over 2,000 units of housing could be provided with this money.

Source: HACH's application to dispose of APV.

HUD regional office officials said that if HUD headquarters approves the application, HUD will closely monitor HACH's implementation of the disposition plan to ensure that provisions of the law are followed. Further, HACH will be required to present specific disposition and tenant relocation plans to HUD at key points during the process. According to HACH's application, about 3-1/2 years may pass before all units are demolished and the 37 acres are parceled out and sold.^e

Use of PHUIP Funds to Demolish APV

The Chairman, in his January 31, 1986, letter, asked how much of the remaining 1979 HUD modernization award for Allen Parkway Village did HACH propose to use to demolish the project. He also wanted to know whether HACH's proposed use of the PHUIP funds to demolish public housing units is an allowable expense under PHUIP.

^eThe housing agency expects that it will take 3-1/2 years to relocate remaining tenants; demolish the 83 structures in 2 phases; develop a detailed request for proposals for the project's sale; solicit, receive, and evaluate bids; and negotiate a final agreement.

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In 1979 HUD gave conditional approval to a \$10 million award to HACH to rehabilitate Allen Parkway Village under HUD's Public Housing Urban Initiatives Program. APV rehabilitation activities substantially ended in 1983 with most of the funds unspent.⁷

HACH's disposition application requested that HUD reprogram \$3.8 million of the unused PHUIP funds and loan them to HACH to defray demolition and disposition costs, as follows:

- clearing aboveground improvements (demolishing structures): \$820,000
- relocating tenants: \$487,500
- partial rehabilitation and maintenance of APV units until the tenants can be relocated: \$1,625,000
- consulting and legal fees: \$300,000
- contingency allowance: \$296,060
- administrative costs for demolition and disposition activities: \$271,440.

HACH plans to repay the loan from sale proceeds. As of August 1986, HUD headquarters had not decided whether to approve this request and had not acted on the application.

HUD's Assistant General Counsel for Assisted Housing believes that HUD has legal authority to allow HACH to use the unspent PHUIP funds for demolition and disposition purposes on the basis of three factors: (1) HUD must have authority to loan funds to housing agencies for demolition and disposition purposes, (2) the PHUIP funds must be eligible to be used for loans, and (3) the use of PHUIP funds for demolition and disposition purposes is allowable.

Regarding the first condition, section 18 of the act authorizes HUD to approve demolition or disposition applications "with or without financial assistance under this chapter" upon the making of specified determinations (see table I.1). It also authorizes HUD to make financial assistance available for applications approved under section 18 using available annual contributions authorized under section 5(c) of the act.⁸

⁷For more information on this award, see our December 20, 1985, fact sheet cited on p. 1. The statutory basis for PHUIP has been repealed and replaced in law by a modernization program called the Comprehensive Improvement Assistance Program.

⁸Section 4(a) of the act authorizes HUD to make loans or commitments to make loans to public housing agencies to help finance or refinance the development, acquisition, or operation of lower-income housing projects by public housing agencies. According to HUD's Assistant General Counsel for Assisted Housing, these loans or loan commitments may be made for certain disposition expenses under section 18 of the act.

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With regard to the second condition, the PHUIP loan and contract authority awarded to HACH were funds provided pursuant to authorization contained in sections 4 and 5 of the act.⁹ With regard to the third condition, section 6(f) of the act, in effect at the time the HACH PHUIP award was made, specifically allowed for demolition or sale of public housing as part of a program of public housing "modification" (that is, rehabilitation or modernization) or "close out" of projects for which no reasonable program of modification was feasible. Therefore, HUD's Assistant General Counsel has concluded that HUD has the authority to administratively reprogram the remaining PHUIP funds (or a portion of them) that were awarded to HACH to rehabilitate Allen Parkway Village. In his view, HUD may loan the funds to HACH for demolition and disposition activities and provide financial assistance for the loans under section 18 of the act.

We reviewed the legislation applicable to the question of whether HUD has the legal authority to allow HACH to use the PHUIP funds as proposed and agree that HUD does possess that authority. Generally, agencies may reprogram funds as long as the programmed expenditures are within the general purpose of the appropriation and are not in violation of any specific limitation or are not otherwise prohibited. HUD in 1979 obligated appropriated funds under the authority of sections 4 and 5(c) of the act for the modernization of the APV, and the appropriated funds obligated for this purpose were not limited to any fiscal year. Section 4 of the act currently authorizes HUD to make loans to finance development of projects. Development is defined in section 3 to include, in part, demolition in connection with lower-income projects. Section 18 also currently authorizes the expenditure of section 5(c) funds for the demolition and disposition of projects and the relocation of tenants. Therefore, we believe HUD may administratively reprogram these funds for demolition and disposition purposes.

How HACH's
Application Addressed
Disposition
Requirements

In August 1984 HACH sent its Allen Parkway Village application to HUD. After a lengthy review and a number of meetings between HACH and HUD officials, HACH sent HUD two written clarifications, and HUD's Fort Worth regional office recommended approval to HUD headquarters in January 1986. These clarifications spelled out more clearly the agency's intent to dispose of the project and how its plan met statutory and regulatory

⁹These are "no year funds" that remain available until expended. This is contrasted to other programs under which the appropriated funds remain available for a set time period.

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HACH's Clarified
Application and Disposition
Requirements

Table I.3 shows the applicable provisions of the demolition/disposition statute and the current regulations and actions HACH has taken or plans to take in order to comply with each provision. These are discussed in more detail below.

Providing More Efficient and
Effective Housing

HACH explained in its 1985 submissions that it would use the anticipated \$120 million in proceeds to replace APV with more efficient and effective housing, that is, more, better quality units in smaller, more manageable projects. HUD officials emphasized that once the housing agency clarified its intent to dispose of the project and showed that the sale would likely generate enough funds to replace the 1,000 units and provide funds for additional units as well (see table I.2), the questions of whether it would be feasible to rehabilitate the project and how much the rehabilitation would cost were no longer considered issues.

Preservation of the Lower-Income
Housing Stock

Section 18 of the act is rather general in requiring that a disposition will preserve the total lower-income housing stock. HUD's implementing regulations (which went into effect after HUD regional office approval) provide that:

"Dwelling units eliminated by disposition. . . shall be offset by units to be added to the available local inventory of lower-income housing utilizing the net proceeds of the disposition. . . . A [public housing agency] must be able to demonstrate to the satisfaction of HUD that the additional units are being provided in connection with the disposition of the property."

The portion of HACH's revised application dealing with replacement housing states that the October 1985 vacancy rate for Houston multi-family housing was 16 percent and that the HUD Houston office had the highest inventory of foreclosed residential property in the nation. As such, an initial HACH study indicated that over 19,000 units of multi-family housing were suitable for low-income housing. Additionally, the application stated that HACH was compiling a list of suitable sites that are on the market as locations for new housing. HACH's application also stated that it planned to develop up to 400 units for the elderly in the Fourth Ward area and 600 units of lower-income family units throughout the city.¹⁰ The replacement housing would be provided in smaller projects of 75 to 200 units each.

¹⁰Allen Parkway Village currently has 248 units designed for the elderly and handicapped and 752 units set aside for families.

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HACH's revised application does not contain any more specific information on how, when, or where replacement housing for the 1,000 units are to be provided or how the remainder of the expected net proceeds from the sale are to be used for housing activities. The Director of the Fort Worth Regional Office of Public Housing told us that the regional office did not require HACH to prepare a replacement housing plan because it believed that the HACH proposal has sufficient economic merit and would result in at least 1,000 replacement units. He also told us that given the 3-1/2 years HACH has stated that it needs to sell the project, it was too soon to develop a specific replacement housing plan. HUD regional office officials informed us that if HUD headquarters approves HACH's disposition application, a replacement plan would be developed prior to selling the property.

HUD officials in Houston explained that the slowdown in the Houston economy in 1984-85 has led to numerous foreclosures on commercial apartment projects, which HACH might be able to purchase in its replacement efforts. The modernization/disposition coordinator said that HACH would follow the city's Housing Assistance Plan to determine the mixture of elderly and family units in its replacement program. He stressed that the city government should play an important role in ensuring that HACH meets its replacement commitment.

The Director of the Project Management Division within HUD's headquarters Office of Public Housing told us that the approximate 20-percent multifamily vacancy rate in Houston was a good indication that identifying replacement housing should not be a problem. However, as HUD is still reviewing HACH's application, it has not decided how it will address the replacement housing plan portion of HACH's application. She told us that one option would be to grant conditional approval to the application subject to the development of a replacement housing plan that would be acceptable to HUD. Both HACH and HUD officials told us that later development of a replacement housing plan may be preferable because of the length of time it will take to sell the project: the later development would provide a more realistic plan.

Tenant Consultation

A third provision calls for HACH to develop its application in consultation with affected tenants and the tenant council. HACH obtained tenant comments and other community input through several means in 1983 and 1984, prior to submitting its 1984 application. Appendix II discusses HACH's consultation efforts in detail.

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Local Government Certification of
Conformance With Housing
Assistance Plan

The fourth provision listed in table I.3 requires that HACH obtain certification from its city government that the disposition conforms to the city's long-range plan to provide low-income housing (housing assistance plan). In August 1984 Houston's mayor, in a letter to HUD's Houston office, certified that the APV application met the general provisions contained in Houston's housing assistance plan. In addition, the Houston City Council voted in August 1984 to support HACH's application to dispose of APV. The council also passed a resolution requiring the housing agency to use proceeds from the APV sale to partially redevelop the APV site or surrounding area by constructing housing units for elderly tenants. HACH envisions up to 400 units in 1 or 2 mid-rise projects will be built after APV is demolished and parceled out for sale.

Tenant Relocation

A fifth provision requires the housing agency to relocate tenants being displaced to other decent, safe, sanitary, and affordable housing. Relocation services under HUD regulations include payment of actual, reasonable moving costs and counseling services to ensure tenants are properly advised on relocation procedures. In response to this requirement, HACH plans to provide residents with the actual and reasonable cost of relocation, give APV tenants first priority on the waiting lists at other HACH housing projects, and provide all necessary counseling services.

Debt Retirement

Finally, HACH must agree to use net proceeds from the project's sale (after payment of HUD-approved disposition costs and tenant relocation expenses) to retire the outstanding debt of \$1.9 million incurred when the project was constructed. HACH must complete this transaction and then apply any of the remaining proceeds to replacement housing. HACH's revised application states that disposition proceeds will be used to pay off the debt.

HUD Action on Other
Demolition and Disposition
Applications

HACH, in response to HUD requests, added information in March and October 1985 to its original August 1984 application to dispose of Allen Parkway Village. The Chairman's January 31, 1986, letter requested that we determine whether, in considering demolition and disposition applications, HUD allowed other housing agencies to amend their applications. The Chairman also asked if HUD had ever rejected a demolition or disposition application because it lacked sufficient information.

The acting head of HUD's Maintenance and Modernization Branch, which is the initial reviewing office within HUD's headquarters Office of Public

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Housing, told us that HUD has no written policy on allowing housing agencies to amend their applications but uses its administrative discretion to allow housing agencies to do so when changes to applications result from HUD questions. She also told us that HUD will reject an application that it believes does not meet the demolition or disposition requirements after HUD has given the housing agency an opportunity to provide additional information.

HUD supplied a file of demolition and disposition applications under recent headquarters review to demonstrate the above. We reviewed the file and found the following supporting examples. These following examples show that HUD has allowed other housing agencies to amend their applications and has rejected applications that it believed contained insufficient information to merit approval.

Consideration of Amended Applications

In March 1985 the Housing Authority of the City of Augusta, Georgia, submitted an application to HUD to allow it to dispose of 278 units in its Gilbert Manor project through a negotiated sale. HUD informed the housing agency of the application's deficiencies and the conditions under which HUD would be willing to consider a revised request. In August 1985 the housing agency submitted a revised application. In September 1985 HUD's Atlanta regional office wrote to the housing agency noting that the revised application was an improvement but that several items had still not been clarified or adequately addressed. The regional office concluded the letter by stating that if the housing agency desired to pursue the sale of Gilbert Manor, a complete application addressing the required criteria should be provided to HUD.

In January 1984 the Buffalo Municipal Housing Authority (New York) requested HUD approval to demolish 3 buildings consisting of 16 units in its Commodore Perry Extension project. The file we reviewed indicated that HUD requested information relating to requirements under the law. In April and June the housing agency supplied additional material requested by HUD, including information on tenant relocation plans and a certification from the City of Buffalo stating that the application was consistent with the housing assistance plan. In October 1984 HUD approved the demolition application.

Applications With Insufficient Information

In February 1985 the Housing Authority of the City of Hartford (Connecticut) requested that HUD approve the demolition of two 3-story buildings totaling 36 units in its Dutch Point Colony project because

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they were severely deteriorated, posed safety hazards, and were too costly to rehabilitate. In May 1985 HUD headquarters denied the request because it did not believe that the housing agency demonstrated, as required by law, that the proposed partial demolition of the project would ensure the viability of the remaining portion. HUD indicated that it would reconsider a resubmitted request if the resubmission contained a more complete justification.

In September 1984 the Kansas City, Kansas, Housing Authority requested HUD approval to dispose of nine units in its K1-21 scattered sites project. The units were to be sold through a negotiated sale. HUD's regulations require that public housing property be sold publicly, unless otherwise approved by HUD. In November 1984 HUD notified its Kansas City Regional Office that approval was being withheld until the housing agency adequately justified the proposed negotiated sale and met other requirements.

HACH's Consultation With Tenants on the Proposed Sale of APV

Prior to HUD approval of an application for demolishing or disposing of a public housing project, section 18 of the act requires that the housing agency develop the application in consultation with the affected tenants and any tenant council. Beginning in June 1983 and continuing through June 1984, HACH took a number of actions to comply with this requirement, including public meetings and written solicitations for comments. Tenant comments were provided to HACH through a tenant council document that recommended rehabilitating APV, several hundred letters, public forums, and board meetings.

HUD regional office officials believe that HACH has met the consultation requirements and that HACH has given consideration to tenant concerns by stating its intention to build elderly housing on or near APV property and to use funds expected from the property sale to develop public housing at other locations throughout the city. HACH did use a number of avenues to consult with tenants on the proposed sale of the project, and we believe this consultation satisfies the requirements of section 18.

Requirements to Consult With Tenants

Section 18 states that HUD cannot approve an application to demolish or dispose of public housing property unless "the application from the public housing agency has been developed in consultation with tenants and tenant councils, if any, who will be affected by the demolition or disposition." Neither the law, its legislative history, nor HUD's regulations prescribe specific types of consultation activities or how the consultation requirement is to be satisfied. HUD's current regulations require a public housing agency to provide HUD with

"...A description of the [housing agency's] consultation with tenants and any tenant organizations...with copies of any written comments which may have been submitted to the [agency] and the [agency's] evaluation of the comments."

HUD Interpretation of Tenant Consultation Requirements

Because of the lack of written guidance on how a housing agency can satisfy the tenant consultation requirement, we discussed the requirement with HUD's Assistant General Counsel for Assisted Housing. He told us that HUD interprets the consultation requirement to mean that the tenants and tenant council are being asked for their comments, advice, and opinions on matters that will affect them under the proposed demolition or disposition but that it is the housing agency's prerogative to determine whether it will change its proposed action on the basis of the consultation. Tenant and tenant council comments are advisory, not binding.

The Assistant General Counsel told us that if a housing agency materially revises its application involving a matter affecting the tenants, then the revised material would have to be developed in consultation with the tenants and tenant council. Whether the tenants need to be "reconsulted" on the revisions depends on whether the revised contents materially affect tenants (not all changes necessarily do) and whether the tenants were previously consulted on the revised material. For example, if tenants were consulted about HACH's intent to dispose of the project prior to HACH's submission of its original application (which addressed demolition aspects of its proposal almost exclusively), then tenants would not have to be reconsulted on the housing agency's intent to dispose of the project when HACH clarified its intent in subsequent submissions to HUD. We agree that HUD's general position on consultation and reconsultation is reasonable.

How HACH Obtained Tenant Comments

HACH took various actions to obtain comments from tenants at APV as well as from the community at large (see table II.1). As discussed earlier, the housing agency appointed a research team to explore options for APV and the surrounding community. This team was assisted by a steering committee that obtained public comments and provided observations on options being studied. In June 1983 the research team conducted a forum to document public comment on the feasibility of rehabilitating APV as well as revitalizing the immediately surrounding area. In September 1983 HACH began recording in its monthly board meetings public comment on APV matters and options being studied by the research team. Although not a HACH initiative, a coalition of four community-based organizations, including the Allen Parkway Village Resident Council (the tenant council), conducted a public forum in August 1983. This forum resulted in a proposal, forwarded to the research team, recommending preserving APV as a residential community and maintaining the historical integrity of the community.

By September 1983 the research team completed its study and issued a report that concluded that the most feasible alternative was to demolish APV, sell the project, and reinvest the proceeds in more suitable housing. The APV tenant council reviewed the research team's report and disagreed with its conclusions. In a 16-page critique, forwarded to HACH in November 1983, the council argued that APV and the surrounding area is a viable community and that the research team's rehabilitation estimates were unrealistic. The council recommended that APV and the surrounding community be rehabilitated. The document also stated that

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Proposed Sale of APV**

input of the tenants had been ignored by the research team. Legal representatives for the council issued a similar document that opposed demolition of the project and indicated that tenant concerns had not been addressed. Additionally, the legal representatives questioned whether HACH could overcome community resistance and opposition in its attempts to replace APV units with projects in other areas of the city.

HACH did not issue written responses to either of the documents that criticized the study. However, the HACH Board of Commissioners reviewed the research team's report and voted, in November 1983, to accept the team's recommendation to demolish all 1,000 units and sell the property. HACH delivered written notification of this decision to APV tenants and the president of the tenant council in early December 1983 along with a request for written comments and/or suggested alternatives to the proposal.

The tenant council did not provide a written response to HACH. Instead, it accumulated about 200 responses to the HACH request and submitted them to HUD's Houston office in March 1984. In its letter to HUD, the council again expressed concern that APV tenants had not been given adequate opportunity to comment on the proposed disposition. HUD forwarded the approximate 200 letters to HACH in April and asked for comments on the council's allegations. HACH responded in May 1984 that the allegations were not correct and that the majority of the residents favored demolishing the project.¹¹ Also in May, the agency's executive director met with 250-300 APV tenants to discuss the disposition proposal and explain the proposed relocation plans and policies.

¹¹HUD and HACH received other comments, some from tenants in favor of the proposed action and others from nonresidents. We reviewed this correspondence but did not tally it because (1) tallying the number of respondents on either side of the issue would not indicate the merit of the comments and (2) results of any such exercise would be open to question since some of the "residents" who responded were not on HACH rent rolls and some residents and nonresidents signed letters or petitions both favoring and opposing HACH's proposed actions.

**Appendix II
HACH's Consultation With Tenants on the
Proposed Sale of APV**

Table II.1: Allen Parkway Village Tenant Consultation Activities

| Participants | Events | | |
|--------------------------------|--|--|--|
| | 1983 | 1984 | 1985-1986 |
| HACH | <p>May —Appointed steering committee to coordinate public feedback on team study and provide comments on the study.</p> <p>June —Conducted forum to obtain public input on revitalizing APV and the surrounding area.</p> <p>September —Conducted board meeting and received public comment on selling the property.</p> <p>December —Notified APV tenants and tenant council of decision to demolish APV and address disposition of the land. Requested tenant and tenant council comments on the proposal.</p> | <p>March —Conducted board meeting and received public comment on APV.</p> <p>May —Assured HUD in letter that APV tenants were being consulted.</p> <p>—Executive Director met with APV tenants to discuss the disposition proposal and explain proposed relocation plan.</p> <p>June —Conducted board meeting and received public comment on APV proposal.</p> | <p>March 1985 —Provided written analysis of APV tenant comments to HUD.</p> |
| APV tenants and tenant council | <p>November —Published critique of research team's September 1983 technical report and recommended APV be rehabilitated.</p> | <p>March —Mailed about 200 tenant comments on APV proposal to HUD. Requested rehabilitation of APV and expressed desire to stay in APV. Stated that they had not been given enough time to comment.</p> | |
| APV legal representatives | | <p>—Published statement on behalf of APV tenants opposing APV demolition. (Undated document)</p> | |
| HUD | | <p>April —Forwarded tenant comments to HACH and requested comment on tenant council allegations that insufficient time had been allowed for tenant comment on APV proposal.</p> <p>November —Requested HACH to provide written analysis of APV tenant comments.</p> | <p>January 1986 —Regional office determined that HACH complied with requirements to obtain comments from tenants and tenants' council.</p> |
| Others | <p>August —Four community organizations conducted a public forum and presented an alternative proposal to demolition of APV.</p> | | |

**Appendix II
HACH's Consultation With Tenants on the
Proposed Sale of APV**

In August 1984 HACH submitted its application to HUD. The application contained a description of actions taken in obtaining tenant input, including efforts of the HACH Board, staff, research team, and steering committee. After reviewing the application, HUD requested that HACH analyze and comment on concerns expressed by APV residents and forward copies of all comments to HUD, which the housing agency did. HACH wrote "The major concern of the residents is that safe, sanitary, and structurally sound housing be provided. This is the main objective of the HACH and will be our thrust as we complete various phases of the demolition and disposition of APV." (Emphasis in the original.) The analysis also listed an assortment of comments made by APV residents and HACH's response to each.

We reviewed available letters submitted by APV tenants and others. Many of the letters opposed the demolition of APV relocation of residents and recommended instead that the project be rehabilitated. HACH's response to the comments pointed out that funding shortages and uncertainties would make it difficult to extensively renovate the project. The housing agency explained further that rebuilding 1,000 units on the site would not be as cost-effective as using the proceeds of the sale to acquire or build replacement housing.

HACH later stated, in additional documentation submitted to HUD, that "while inconveniencing some residents by relocation, the overall good of the majority of residents of public housing would best be served through the disposition of Allen Parkway Village." HACH also indicated that 200 to 400 units of elderly replacement housing will be built on or near the APV site after the project is sold and that another 600 units of family housing would be located on sites throughout the city.

**HACH and HUD Comments
on the Adequacy of Tenant
Consultation**

HACH's executive director believes that adequate consideration has been given to the concerns of tenants and the tenant council. He explained that HACH's commitment to constructing up to 400 elderly units in the Fourth Ward is responsive to their concerns. In addition, income from the sale will provide financing for newer, more efficient units in smaller, more manageable projects at other locations. He emphasized that federal funding has been very restrictive and the housing agency cannot depend on large modernization commitments from HUD in the future. The sale of APV, he said, would benefit a larger number of low-income households in the long term than would rehabilitating the project and this was an important factor in the plan to sell the property.

HUD's regional office concluded that HACH has satisfied the requirements for obtaining and evaluating tenant comments. Regional officials determined that tenants were given sufficient time to comment on the proposal and, as early as September 1983, were aware of the housing agency's proposal to sell the property. They agreed with HACH's conclusion that the housing agency stands to benefit more in the long run by selling the property and believed that consideration was given to tenant concerns by HACH's commitment to retain up to 400 units of elderly housing in the area. They did not consider the March and October 1985 submissions to be a change to the application because HACH's original intent to sell the property remained unchanged. As of August 1986, the application was under review at HUD headquarters.

**Our Observations on Tenant
Consultation Activities**

The Chairman requested that we assess whether the

- tenants were meaningfully consulted,
- tenants were informed and given the opportunity to consult on the additional material, and
- additional material supplied by HACH to HUD constitutes a significant proposal revision to warrant further tenant review and comment.

Neither section 18, its legislative history, nor HUD's regulations on public housing demolition and disposition provide any guidance on how housing agencies are to consult and how the consultation requirement is satisfied. It should be noted, however, that the consultation is advisory: a housing agency maintains the prerogative to modify or not modify its demolition or disposition plan.

The record clearly shows that HACH gave tenants and the tenant council several opportunities to present their views orally (at Board of Commissioners meetings, a meeting with the executive director on the relocation of current tenants, and other meetings) and the tenants and tenant council were formally asked for written comments on the proposed demolition and eventual sale of the project prior to HACH's submission of its application to HUD. We found that HACH's publicly stated intent has been to sell the project, rather than merely demolish it, and its consultation activities were carried out in this vein.

According to HACH, it did not formally advise the tenants or the tenant council of its March and October 1985 submissions to HUD, revising its August 1984 application. HACH believes that these two later submissions clarified its intent to dispose of the project—its original stated intent—

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and contained other material required by HUD. HUD regional office officials also believe that the two later submissions did not constitute new applications.

We agree with HACH and HUD that the March and October 1985 supplements clarified HACH's intent to dispose of the project rather than merely demolish it. As discussed earlier in this appendix, HACH's stated intent since November 1983 has been to seek approval to dispose of the project and demolish the structures; HACH's tenant consultation activities were conducted in this regard; and HACH, we believe, has complied with the consultation requirements of section 18 of the act.

HACH Estimate of \$30 Million to Rehabilitate APV

HACH's application estimated that \$30 million would be required to rehabilitate APV, extending the project's life by 20 to 30 years. HACH used HUD modernization guidelines, local construction costs, and industry cost handbooks in estimating work item costs. HACH and HUD did not attempt to reconcile this estimate with a HUD internal estimate of \$14 million because the question of whether to renovate was considered irrelevant once the housing agency clarified the basis for its application. Nonetheless, we inquired about the basis for the HACH estimate and found that its scope of work was more extensive than that proposed under HUD's estimate. HUD regional officials told us that HUD probably would not have approved a rehabilitation effort as comprehensive as HACH proposed because of HUD budget constraints.

Work Proposed in HACH's Estimate

In March 1985, during HUD's review of HACH's application, the housing agency provided a revised estimate of \$30 million to upgrade the project to HUD standards. HACH staff developed this estimate in conjunction with a consulting developer who participated in the 1983 research team study and who had developed preliminary estimates as part of the effort. The estimate was based on work consisting of

- refurbishing all 1,000 dwelling units;
- replacing electrical, plumbing, heating, water, sewer, and gas distribution systems;
- installing new roofs and outside security lighting;
- replacing windows, doors, porches, and appliances;
- improving roadways, parking, walkways, and landscaping;
- providing playground equipment, trash dumpster enclosures, picnic tables, perimeter fencing, and benches throughout the site; and
- renovating administrative offices and the maintenance facility.

HACH projected that site and structural improvements would cost \$24,063,935. To this sum, it added \$5,952,531 to cover on-site inspection, overhead, contractor's start-up costs, work permits, bond premiums, and unanticipated change orders, thus increasing the total to \$30,016,466.

**Appendix III
HACH Estimate of \$30 Million to
Rehabilitate APV**

HACH officials believe their cost estimates and work items were within the policies established under HUD's current public housing modernization program.¹² The Director of HACH's Facilities Development Department emphasized that the housing agency has not performed any significant rehabilitation work on the project since the early 1960's. He told us that the project's physical condition does not meet a number of city codes or present-day HUD property standards and that to extend the useful life 20 to 30 years, a major renovation effort, such as that proposed in HACH's estimate, is necessary. He added that the estimate is conservative and does not include some items HUD allows in its modernization projections, such as expenses for office furniture, office equipment, and work vehicles. We toured the project with HACH officials and found a number of units, both inhabited and vacant, to need rehabilitation. Exterior problems, such as foundation cracks, were also obvious.

Sources for HACH Cost Estimates

In developing the \$30 million estimate, HACH staff and the consulting developer used HUD's minimum property standards and city building codes as a basis for establishing work standards. After identifying the project's physical problems, the team discussed each item and agreed to a work plan to correct each problem. In computing specific cost estimates, the team utilized HUD modernization cost guidelines, several industry cost handbooks, and the team's knowledge of construction costs in Houston.

The Director of HACH's Facilities Development Department said the team's approach was to select the most realistic and appropriate cost guide in evaluating each work category. He explained that in many instances cost guides differed in their estimates of what it should cost to replace or repair certain items depending on the quality and scope of work involved. The team selected a figure using its judgment and a comparison of each cost source. For example, to provide special equipment and modifications for handicapped residents, the HUD modernization cost guide suggested \$65 per unit for bathroom fixtures and alterations. The director said this figure is too low and would not cover the cost of bathtub, shower, and toilet grab bars. Accordingly, the team increased the estimate to \$325 on the basis of industry cost criteria.

¹²Under the Comprehensive Improvement Assistance Program, HUD awards funds for upgrading living conditions, correcting physical deficiencies, and upgrading management capability at public housing projects. After comprehensive modernization, projects are supposed to have long-term physical and social viability.

**Appendix III
HACH Estimate of \$30 Million to
Rehabilitate APV**

To analyze the basis for HACH's cost estimate, we traced five work categories of material value, listed in the estimate, to supporting rationale. An analysis of these five work categories, totaling about \$6 million, showed that cost estimates were supported by cost sources, although in one case HACH's estimate was higher than it used for similar items at other housing projects. Following is a brief explanation of the categories.

- HACH proposed to replace kitchen and bathroom cabinets in every unit and used HUD's 1983 modernization cost guide to arrive at the projection of \$1,225 per unit.
- HACH estimated it would cost \$1,379,985 for exterior metal doors, security screen doors, and hollowcore interior doors in every unit and obtained quotes from local vendors on each item. Quotes obtained were in line with HUD's 1983 modernization cost guide.
- HACH proposed to upgrade the project's electrical system to include new amp boxes, electric meters, porch lights, wall switches and outlets, and lavatory lights. HUD's 1983 modernization cost guide recommended \$1,216 for these items per dwelling unit. HACH raised this estimate by about \$1,000 because the cost guide figure did not include smoke alarms, stairwell lights, emergency call stations in elderly units, and rewiring each unit for additional electrical outlets. HACH explained that APV units contain just one electrical outlet in each room, and HACH's estimate provided for installing additional wiring and outlets to comply with city building codes of one every 6 feet. HACH used its knowledge of local costs to arrive at the extra cost.
- HACH used local construction costs to project that interior painting would cost \$396,358. This was less than the \$437,360 estimate HACH would have computed had it used HUD's modernization cost guide.
- HACH estimated it would cost \$425 for refrigerators and \$305 for ranges in each dwelling unit. These figures, which were based on local supply sources, exceeded HUD's modernization cost guide and HACH's 1985 modernization estimates at several of its other projects where refrigerators and ranges were projected to cost \$350 and \$250, respectively. The Director of HACH's Facility Development Department commented that both estimates were preliminary and therefore could change. HACH, in its comments on our draft report, said that the increased costs were due to a frost free feature in the refrigerator estimate and that the proposed ranges were larger than those used in other projects.

How HACH's Estimates Differed From HUD's

We asked HUD Houston office officials to comment on the HACH \$30 million estimate and to compare it to their own estimate of \$14 million, which was made in December 1984. The HUD engineer who prepared the estimate said that work proposed under their \$14 million estimate would extend the project's life by 8 to 10 years but would not result in comprehensive renovation or extend the project's life 20 to 30 years, as envisioned in HACH's proposal. The HUD officials cautioned that HUD's estimate was very preliminary and probably too low, adding that \$20 million may be more realistic if long-term benefits were to be gained. HUD officials emphasized it is not uncommon for housing agencies to propose rehabilitation work that is broad in scope and similar in content to HACH's estimate. However, HUD's modernization budgets are normally so tight that extensive proposals such as HACH's are reduced considerably. This occurred in 1978 when HACH requested about \$17 million in modernization funds for APV but was awarded only \$10 million.

We compared eight work categories in the two estimates and found that differences in the scope of proposed work produced sizable variances in HACH's and HUD's cost estimates. These differences are illustrated in table III.1. For instance, HUD's estimate suggested that the present flat roofs be repaired without changing roofing design; HACH proposed installing a more expensive pitched roof that would provide better drainage and reduce long-term maintenance requirements. In another case, HUD proposed replacing the wall heater in each unit but chose to retain the heat-rise system of circulation. (Heat rises naturally to the second floor through the stair well and a ceiling grate.) HACH's estimate, on the other hand, was higher because staff recommended upgrading the system to forced-air units. HUD also believed that HACH could use in-house labor for preliminary drawings and site construction inspections and therefore did not include an estimate for this work. HACH's estimate, in contrast, contained a 4-percent fee for outside architect and engineering services because HACH staff believed the housing agency would be unable to adequately perform these services.

**Appendix III
HACH Estimate of \$30 Million to
Rehabilitate APV**

Table III.1: Examples of Differences in Work Proposed by HUD and HACH in Their Rehabilitation Estimates

| Category | Work proposed | Cost* |
|-------------------------------------|---|-----------|
| Roofs: | | |
| HUD | Retain flat roofs but resurface | \$560,000 |
| HACH | Replace flat roofs with pitched roofs | 1,701,914 |
| Interior walls and ceilings: | | |
| HUD | Scrape, paint, and caulk | 300,000 |
| HACH | Fur walls and ceilings, drywall surfaces, and paint | 1,537,364 |
| Heating systems: | | |
| HUD | Replace wall heaters (one in each dwelling unit) | 375,000 |
| HACH | Install forced-air heating system with circulation to both floors of two-level units | 680,850 |
| Floor tile: | | |
| HUD | Replace with vinyl floor tile | 800,000 |
| HACH | Replace with vinyl floor tile and add 4" trim around base of floor | 1,002,988 |
| Landscaping: | | |
| HUD | Yard repairs | 100,000 |
| HACH | Sod, shrubs, and trees | 234,060 |
| Provisions for elderly/handicapped: | | |
| HUD | None | \$0 |
| HACH | Install interior and exterior equipment and aids (e.g. ramps, rails, grab bars, etc.) | 26,137 |
| Clean and seal exterior walls: | | |
| HUD | None | 0 |
| HACH | Clean and apply waterproof sealant to walls | 316,696 |
| Architect/engineer services: | | |
| HUD | Use HACH labor for drawings and inspections during construction | 0 |
| HACH | Hire independent architect for drawings and inspections during construction | 1,082,877 |

*These estimates do not include overhead and profit.

Source: GAO analysis of rehabilitation estimates prepared by HUD in December 1984 and HACH in March 1985.

Rehabilitation Estimate Not Required for Disposition Approval

HACH prepared its revised rehabilitation estimate at HUD's request because it appeared to HUD that HACH was proposing merely to demolish the project rather than to dispose of it. In the case of demolition, rehabilitation estimates are used to determine the feasibility of rehabilitating a project. HACH subsequently clarified its intent to dispose of the project, with the project buildings to be demolished after HUD approval and before the site is sold.

HUD program and legal officials told us that under the law's disposition criteria on which HACH's application is based, rehabilitation costs are not required for their review and approval, if merited, of the application.

**Appendix III
HACH Estimate of \$30 Million to
Rehabilitate APV**

We agree that under the disposition rationale set out in HACH's application, a rehabilitation estimate is not necessary.

**Houston Architect's
Views**

The Chairman's January 31, 1986, letter requested that we contact a specific Rice University assistant professor of architecture about her analysis of the APV rehabilitation cost estimates. The professor told us that a local Houston builder helped her analyze HACH's original \$36 million cost estimate and that the builder concluded that the project could be renovated for \$12 million to \$15 million. She was unable to provide us details of this estimate and we were unsuccessful in our attempts to contact the builder. She had not analyzed HACH's revised \$30 million rehabilitation estimate.

Objectives, Scope, and Methodology

Pursuant to the Chairman's November 6, 1985, and January 31, 1986, requests, our review objectives were to determine

- how HACH ensured that its application met federal requirements, including how it supplemented its original application and whether it has a plan for replacing APV units;
- whether tenants were meaningfully consulted; and
- the basis for HACH's estimate that it would cost about \$30 million to rehabilitate the project.

We also addressed other questions posed, including (1) whether HUD has allowed other housing agencies to amend their applications, (2) how HUD, under the law, might approve a disposition application but not approve a demolition application, (3) how the lack of regulations implementing section 18 of the act affects HUD's ability to act on a housing agency's application, and (4) the extent to which HACH is proposing to use modernization funds for disposition activities and the legality of this use.

We conducted our work at HACH and at the HUD offices in Houston and Fort Worth, Texas, and Washington, D.C., that reviewed the housing agency's disposition application. We performed our work during the November 1985-February 1986 period.

We reviewed the federal statute governing demolition and disposition of public housing projects, the legislative history associated with the statute, and HUD's current regulations. We used these as a basis for assessing the contents of HACH's disposition application. We reviewed HACH's 1984 application and supplemental information submitted to HUD in 1985; HACH correspondence; various studies performed by or for HACH, HUD, and others concerning Allen Parkway Village; and other supporting HACH documentation. We also discussed the basis and rationale for HACH's disposition request with HACH officials who prepared the application and HUD officials who reviewed it. At HUD's Houston, Fort Worth, and Washington, D.C., offices, we also discussed with program officials how HUD, generally, carries out its demolition and disposition review activities and reviewed records relating to Allen Parkway Village and other related material. In addition, we discussed demolition and disposition statutory and regulatory requirements with HUD's Assistant General Counsel for Assisted Housing.

To determine how tenant consultation was carried out, we reviewed statutory requirements and HUD regulations and compared them to

**Appendix IV
Objectives, Scope, and Methodology**

HACH's tenant consultation efforts. We reviewed documentation associated with HACH's consultation efforts, including tenant letters, minutes of HACH Board of Commissioners meetings, and critiques of HACH's disposition proposal prepared by the Allen Parkway Village Resident Council and its legal representatives. We discussed consultation efforts with HACH officials, HUD field office and headquarters officials who reviewed the disposition proposal, the president of the Allen Parkway Village Resident Council, and two legal groups that performed services on behalf of tenant council.

We assessed HACH's rehabilitation cost estimate by determining the sources used to compute the projection, comparing work categories to those contained in HUD's estimate for rehabilitating the project, and discussing the scope and basis for rehabilitation estimates with HUD and HACH officials. We also obtained comments from the president of the tenant council and an assistant professor of architecture at Rice University who had provided observations on HACH's proposal.

We obtained written comments on a draft of this report from both HUD and HACH and have included those comments in the report where appropriate. We performed our review in accordance with generally accepted government auditing standards.

Comments From the Department of Housing and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

July 21, 1986

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

Mr. J. Dexter Peach
Director
Resources, Community, and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Secretary Pierce has asked me to reply to your letter of June 4, 1986, enclosing the draft report on the proposed sale of the Allen Parkway Village public housing project of the Housing Authority of the City of Houston (HACH). We have reviewed the draft report and appreciate this opportunity to provide our comments.

The draft report confirms our position that the requirements for disposition and demolition of public housing contained in Section 18 of the U.S. Housing Act of 1937, as amended (Act), have been adhered to by the HACH in developing and submitting the request and by the Department in our review. We believe the report should also help to settle the issue of the appropriateness of the tenant comment procedures carried out by the HACH. Although the HACH revised its proposal to meet statutory requirements for disposition requests, the basic plan to demolish the buildings and dispose of the land did not change from the initial and subsequent consultation with tenants. Both the draft report and our own Office of General Counsel confirm that the actions taken by the HACH in developing its proposal for the sale of the project fully satisfy the letter and intent of Section 18 of the Act.

The draft report addresses the issue of using previously approved Public Housing Urban Initiatives Program (PHUIP) modernization funds for the proposed relocation of tenants and demolition of existing buildings at Allen Parkway Village. Precedent has been demonstrated for the use of public housing modernization funds for demolition and relocation purposes. The HACH, however, fully intends to repay these funds out of the proceeds of the sale from the project.

While we believe that the conclusions of the draft report are sound, we note the following technical points, the correction of which we believe would strengthen the report. First, on page 4 of the letter and elsewhere (pp. 6 and 17) it is stated that sales proceeds must be used to provide more efficient and effective housing and preserve the lower income housing stock. The table on page 21 in Appendix 1 makes clear that these requirements apply only when one of the three statutory disjunctive bases for disposition occurs. But the reader may be confused, especially in the cover letter, as to whether those requirements apply in all cases. It would be helpful to state expressly that this is the statutory basis under which the instant project is to be disposed.

**Appendix V
Comments From the Department of Housing
and Urban Development**

Also on page 4, you may wish to consider expressly mentioning the statutorily required use of sales proceeds ("the provision of housing assistance for lower income families through such methods as modernization of lower income housing, or the acquisition, development, or rehabilitation of other properties to operate as lower income housing." Section 18(a)(2)(b)(1)). On the same page under the statute tenants must be assisted in relocating to affordable housing but this does not necessarily mean financial assistance.

Finally, the discussion of the Public Housing Urban Initiatives Program funds at pages 31-32 is accurate with respect to the legality of reprogramming for demolition purposes. However, it seems to operate on the assumption that the funds would be deobligated, which is not the case.

We believe the draft report confirms the appropriateness of the actions taken by the HACH and the Department of Housing and Urban Development with regard to the proposed sale of Allen Parkway Village.

Sincerely,


James E. Baugh, Ph.D.
General Deputy Assistant Secretary

Comments From the Housing Authority of the City of Houston



HOUSING AUTHORITY OF THE CITY OF HOUSTON
P.O. BOX 2971 • HOUSTON, TEXAS 77252-9950 • (713) 961-1541

OFFICE OF THE EXECUTIVE DIRECTOR

June 20, 1986

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Mr. Jim Ratzenberger
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ratzenberger:

EARL PHILLIPS
EXECUTIVE DIRECTOR

The proposed draft concerning the disposition of Allen Parkway Village has been circulated among staff and some very minor revisions have been suggested. These suggestions/comments are written in the text of the draft copy included with this correspondence. We feel that the major conclusions contained in the report represent fairly the actions taken by the Authority, and we hope that the issue can soon be put to rest.

Sincerely,

Earl Phillips
Executive Director

EP:sr

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